

ORIGINAL
OPEN MEETING



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MEMORANDUM

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TO: THE COMMISSION

FROM: Utilities Division

DATE: December 12, 2018

RE: IN THE MATTER OF POSSIBLE MODIFICATIONS TO THE ARIZONA CORPORATION COMMISSION'S ENERGY RULES (DOCKET NO. RU-00000A-18-0284)

SUBJECT: ELECTRIC VEHICLES, ELECTRIC VEHICLE INFRASTRUCTURE, AND THE ELECTRIFICATION OF THE TRANSPORTATION SECTOR IN ARIZONA

INTRODUCTION

Enclosed are the Commission Staff's memorandum and proposed policy recommendation for ELECTRIC VEHICLES, ELECTRIC VEHICLE INFRASTRUCTURE, AND THE ELECTRIFICATION OF THE TRANSPORTATION SECTOR IN ARIZONA (Docket No. RU-00000A-18-0284). This is only a Staff recommendation to the Commission. The Commission can decide to accept, amend, or reject Staff's proposed policy.

Any party who wishes to comment on this matter may appear before the Commission at its regular Open Meeting scheduled for **December 17, 2018** at 10:00 A.M. and **December 18, 2018** at 10 A.M. or may file written comments in Docket Control.

If you have any questions about this matter, please contact Drake Moran of our Staff at (602) 542-4227, or Elijah Abinah, Director, at (602) 542-6935.

BACKGROUND

Attached is Commission Staff's Policy Statement Regarding Electric Vehicles, Electric Vehicle Infrastructure, and the Electrification of the Transportation Sector in Arizona for Commission consideration.

Elijah O. Abinah
Director
Utilities Division

EOA:DJM:elr\MAS

ORIGINATOR: Drake Moran

Arizona Corporation Commission

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Joanne Bradley
Jacqueline DeRosa, Mike
McGuffin
Customized Energy Solutions
101 Parkshore Drive - 100
Folsom, California 95630

Kevin Fox
Keyes & Fox LLP
436 14th Street - 1305
Oakland, California 94612

Lori Dolqueist
One Embarcadero Center, 30th
Floor
San Francisco, California 94111

Mario Natividad
9244 Bermudez Street
Pico Rivera, California 90660-
4510

Raymond Hagerman
5101 College Boulevard
Farmington, New Mexico 87402

Madonna Bixby
PNM Resources
Corporate Headquarters
Albuquerque, Arizona 87158

William Kelly
Frye Law Firm P.C.
10400 Academy Road NE, Suite
310
Albuquerque, New Mexico
87111

A. B. Baardson
6463 North Desert Breeze CT
Tucson, Arizona 85750

Russell Jones
Waterfall, Economidis,
Caldwell, Hanshaw & Villame
5210 East Williams Circle, Suite
800
Tucson, Arizona 85711

Jeff Schlegel
Sweep Arizona Representative
1167 West Samalayuca Drive
Tucson, Arizona 85704-3224

Marshall Magruder
Post Office Box 1267
Tubac, Arizona 85646-1267

Steve Jennings
AARP
16165 North 83rd Avenue, Suite
201
Peoria, Arizona 85382

Joe Cobb
4814 West State Avenue
Post Office Box 1855
Glendale, Arizona 85311

David Berry
Western Resource Advocates
Post Office Box 1064
Scottsdale, Arizona 85252-1064

Robert Metli
2398 East Camelback Road,
Suite 240
Phoenix, Arizona 85016

Kathy Senseman
Policy Development Group
3636 North Central Avenue -
590
Phoenix, Arizona 85012

Meghaen Dell'Artino
328 East Keim Road
Phoenix, Arizona 85012

Scott Wakefield
Ridenour, Hinton & Lewis,
P.L.L.C
201 North Central Avenue, Suite
3300
Phoenix, Arizona 85004-1052

Joseph Drazek
Quarles & Brady LLP
One Renaissance Square
Two North Central Avenue
Phoenix, Arizona 85004

Lauren Patheal
Triadvocates LLC
Two North Central Avenue -
1150
Phoenix, Arizona 85004

Nicholas Dranias
500 East Coronado Road
Phoenix, Arizona 85004

Christopher Thomas
Fred E. Breedlove III
Squire Sanders (US) LLP
One East Washington, 27th
Floor
Phoenix, Arizona 85004

Julie Rees
Triadvocates LLC
Two North Central Avenue -
1150
Phoenix, Arizona 85004

Albert Acken
One North Central Avenue,
Suite 1200
Phoenix, Arizona 85004

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December 11, 2018

Page 3

James Hamilton
Hamilton Consulting
822 North 5th Avenue
Phoenix, Arizona 85003

Tim Lindl
Keyes, Fox & Wiedman LLP
436 14th Street - 1305
Oakland, California 84612

Brett Kraus
99 East 700 S
Logan, Utah 84321

Kevin Higgins
Energy Strategies, LLC
215 South State Street, Suite
200
Salt Lake City, Utah 84111

Annie Lappe
1120 Pearl Street, Suite 200
Boulder, Colorado 80302

Rick Gilliam
The Vote Solar Initiative
1120 Pearl Street, Suite 200
Boulder, Colorado 80302

Maura Yates
SunEdison LLC
700 Lavaca Street - 1430
Austin, Texas 78701

Tina Lee
2929 Allen Parkway, Suite 2280
Houston, Texas 77019

Harry Kingerski
1301 McKinney, Level 12
Houston, Texas 77010

Chris Hendrix
2001 South East 10th Street
Bentonville, Arkansas 72716

Sundevil Power Holdings, LLC
Attn: Mark Thompson & Ray
Wallander
c/o Wayzata Investment Partners
701 East Lake Street - 300
Wayzata, Minnesota 55391

Brad Nelson
7001 SW 24th Avenue
Gainesville, Florida 32607

Craig Goodman
Stacey Rantala
National Energy Marketers
Association
3333 K. Street, NW - 110
Washington, District of
Columbia 20007

Valerie Hayes
Direct Selling Association
1667 K Street NW - 1100
Washington, District of
Columbia 20006

Rick Umoff
Solar Energy Industries
Association
505 9th Street NW, Suite 800
Washington, District of
Columbia 20004

Philene Taormina
34 Wheelock Street
Montpelier, Vermont 05602

Kristie Deuliis
67 South Bedford Road, Suite
201-E
Burlington, Massachusetts
01803

Greg Bass
Noble Americas Energy
Solutions
401 West A Street, Suite 500
San Diego, California 92101-
3017

Jack Blair
311 East Wilcox
Sierra Vista, Arizona 85635

Christopher Hitchcock
Law Offices of Christopher
Hitchcock, P.L.C
One Copper Queen Plaza
Post Office Box AT
Bisbee, Arizona 85603

Stephanie Wojcik
Town of Wickenburg
155 North Tegner, Suite A
Wickenburg, Arizona 85390

Sidney Smith
Hohokam Irrigation & Drainage
District
142 South Arizona Boulevard
Coolidge, Arizona 85128

Alan Kierman
IO Data Centers, LLC
615 North 48th Street
Phoenix, Arizona 85008

Anthony Wanger
IO Data Centers, LLC
615 North 48th Street
Phoenix, Arizona 85008

Leland Snook
Arizona Public Service
Company
400 North 5th Street, Mail Stop
8695
Phoenix, Arizona 85004

Christopher Thomas
Fred E. Breedlove III
Squire Sanders (US) LLP
One East Washington, 27th
Floor
Phoenix, Arizona 85004

Cynthia Zwick
Arizona Community Action
Association
2700 North Third Street - 3040
Phoenix, Arizona 85004

James Hamilton
Hamilton Consulting
822 North 5th Avenue
Phoenix, Arizona 85003

Sevasti Travlos
The Alliance for Solar Choice
LLC
595 Market Street, 29th Floor
San Francisco, California 94105

THE COMMISSION

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Page 4

Steven Rymsha
Sunrun INC.
595 Market Street, 29th Floor
San Francisco, California 94105

John Wallace
2210 South Priest Drive
Tempe, Arizona 85282
Thomas Harris
Distributed Energy Resource
Alliance
5215 East Orchid Lane
Paradise Valley, Arizona 85253

Gregory Bernosky
Arizona Public Service
Company
Mail Stop 9712
Post Office Box 53999
Phoenix, Arizona 85072

Matt Derr
Southwest Gas Corporation
1600 East Northern Avenue
Phoenix, Arizona 85020

Neil Kolwey
Southwest Energy Efficiency
Project
2334 North Broadway, Suite A
Boulder, Colorado 80304

Thad Kurowski
470 East 76th Avenue
Unit 3A
Denver, Colorado 80229

Jennifer Kefer
The Alliance for Industrial
Efficiency
2609 11th Street North
Arlington, Virginia 22201

Nitzan Goldberger
The Alliance for Industrial
Efficiency
2609 11th Street North
Arlington, Virginia 22201

Mari Hernandez
Interstate Renewable Energy
Council
Post Office Box 1156
Latham, New York 12110-1156

Andrew Wang
Solarreserve, LLC
520 Broadway, 6th Floor
Santa Monica, California 90401

Catherine Mazzeo
Southwest Gas Corporation
Post Office Box 98510
Las Vegas, Nevada 89193

Copper Market, Inc.
Post Office Box 245
Bagdad, Arizona 86321

Northern Arizona University
Karin Wadsack, Project Director
Box 5694
Flagstaff, Arizona 86011

Thomas Acker
1605 North Wood Hollow Way
Flagstaff, Arizona 86004

Jason Pistiner
Singer Pistiner PC
15849 North 71st Street, Suite
100
Scottsdale, Arizona 85254

Michele Van Quathem
Law Offices of Michele Van
Quathem, PLLC
7600 North 15th Street, Suite
150-30
Phoenix, Arizona 85020

Stacy Tellinghuisen
Western Resource Advocates
2260 Baseline Road
Boulder, Colorado 80302

Ken Wilson
Western Resource Advocates
2260 Baseline Road, Suite 200
Boulder, Colorado 80302

Amanda Ormond
Western Grid Group
2303 North Timberline Road
Flagstaff, Arizona 86004

UNS Gas, Inc.
Post Office Box 711, Mail Stop
HQE910
Tucson, Arizona 85702

David Hutchens
UNS Electric, INC.
88 East Broadway Boulevard,
Mail Stop HQE901
Post Office Box 711
Tucson, Arizona 85701-0711

UNS Electric, Inc.
Attn: Melissa Morales
Post Office Box 711 Mail Stop
HQE910
Tucson, Arizona 85702

Vincent Nitido
Trico Electric Cooperative, INC
8600 West Tangerine Road
Marana, Arizona 85658

Sulphur Springs Valley Electric
Cooperative, Inc.
350 North Haskell Avenue
Willcox, Arizona 85643

Tom Wray
Southwestern Power Group
3610 North 44th Street, Suite
250
Phoenix, Arizona 85018

Mark Etherton
Southwest Transmission
Partners, LLC
2172 East Calle de Arcos
Tempe, Arizona 85284

Jason Gellman
Snell & Wilmer, LLP
One Arizona Center
400 East Van Buren Street,
Suite 1900
Phoenix, Arizona 85004

Michael Sheehan
88 East Broadway Boulevard
Mail Stop HQW803
Tucson, Arizona 85701

THE COMMISSION

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Page 5

Deborah Scott
Salt River Project
Senior Director Regulatory
Policy
Post Office Box 52025 PAB4TB
Phoenix, Arizona 85072-2025

Court Rich
Rose Law Group, PC
7144 East Stetson Drive, Suite
300
Scottsdale, Arizona 85251

John Fernandes
Renewable Energy Systems
Americas INC.
11101 West 120th Avenue,
Suite 400
Broomfield, Colorado 80021

Hannah Polikov
1000 Vermont Avenue NW, 3rd
Floor
Washington, District of
Columbia 20005

Susan H. & Richard Pitcairn
1865 Gun Fury Road
Sedona, Arizona 86336

Rebecca Wenk
Public Service Co. of New
Mexico
414 Silver Avenue SW
Albuquerque, New Mexico
87102

Roy Archer
Morenci Water and Electric
Company
Ajo Improvement Company
Post Office Box 68
Morenci, Arizona 85540

Nicholas Enoch
Lubin & Enoch, PC
349 North Fourth Avenue
Phoenix, Arizona 85003

Benjamin Lowe
ALEVO USA INC.
2321 Concord Parkway S.
Concord, North Carolina 28027

Kristin Mayes
The Kris Mayes Law Firm,
PLLC
3030 North Third Street, Suite
200
Phoenix, Arizona 85012

Craig Marks
Craig A. Marks, PLC
10645 North Tatum Boulevard
Suite 200-676
Phoenix, Arizona 85028

Thomas Campbell
Lewis Roca Rothgerber Christie,
LLP
201 East Washington Street,
Suite 1200
Phoenix, Arizona 85004

Lewis Levenson
1308 East Cedar Lane
Payson, Arizona 85541

Thomas Pyle
Institute for Energy Research
1155 15th Street NW, Suite 900
Washington, District of
Columbia 20005

Garry Hays
Law Offices of Garry D. Hays,
PC
2198 East Camelback Road,
Suite 305
Phoenix, Arizona 85016

Graham County Utilities, Inc. -
Gas Division
Post Office Drawer B
Pima, Arizona 85543

Than Ashby
Graham County Electric
Cooperative, INC.
9 West Center Street
Post Office Drawer B
Pima, Arizona 85543

Dan Byers
Global Energy Institute
1615 H. Street NW
Washington, District of
Columbia 20062

Heather Kreager
Gila Bend Power Partners
5949 Sherry Lane, Suite 1900
Dallas, Texas 75225-6553

Dan McClendon
Garkane Energy Cooperative,
INC.
Post Office Box 465
Loa, Utah 84747

Patricia Ferre
Post Office Box 433
Payson, Arizona 85547

Duncun Electric Cooperative,
Inc.
Post Office Box 440
Duncun, Arizona 85534

Steven Lunt
Duncan Valley Electric
Cooperative
Post Office Box 440
Duncan, Arizona 85534

Ladel Laub
Dixie-Escalante Rural Electric
Association, INC.
71 East Highway 56
Beryl, Utah 84714-5197

Jeffrey Crockett
Crockett Law Group, PLLC
2198 East Camelback Road,
Suite 305
Phoenix, Arizona 85016

Charles Kretek
Columbus Electric Cooperative,
INC.
Post Office Box 631
Deming, New Mexico 88031

Dillon Holmes
Clean Power Arizona
9635 North 7th Street, No.47520
Phoenix, Arizona 85068

Linda Benally
400 North 5th Street, Mail Stop
8695
Phoenix, Arizona 85004

THE COMMISSION

December 11, 2018

Page 6

Nancy Baer
245 San Patricio Drive
Sedona, Arizona 86336

Tom Harris
Arizona Solar Energy Industries
Association
2122 West Lone Cactus Drive,
Suite 2
Phoenix, Arizona 85027

Greg Patterson
Competitive Power Alliance
916 West Adams, Suite 3
Phoenix, Arizona 85007

Timothy Hogan
Arizona Center for Law in the
Public Interest
514 West Roosevelt Street
Phoenix, Arizona 85003

Alliant Gas, LLC
200 West Longhorn Road
Payson, Arizona 85541

Ajo Improvement Company
Roy Archer, President/Manager
Post Office Drawer 9, South
Highway 85
Ajo, Arizona 85321

Richard Adkerson
Ajo Improvement Company
333 North Central Avenue
Phoenix, Arizona 85004-2189

Albert Acken
Ryley Carlock & Applewhite
One North Central Avenue,
Suite 1200
Phoenix, Arizona 85004

Vicki Sandler
Arizona Independent Scheduling
Administrators Association
14402 South Canyon Drive
Phoenix, Arizona 85048
vickisandler@gmail.com
Consented to Service by Email

Patrick Black
Fennemore Craig, P.C.
2394 East Camelback Road,
Suite 600
Phoenix, Arizona 85016
pblack@fclaw.com
lferrigni@fclaw.com
Consented to Service by Email

Jennifer Cranston
Gallagher & Kennedy, P.A.
2575 East Camelback Road
Suite 1100
Phoenix, Arizona 85016-9225
lgernet@azgt.coop
jennifer.cranston@gknet.com
jwallace@gcseca.coop
JCanaca@gcseca.coop
Consented to Service by Email

Robert Lynch
340 East Palm Lane, Suite 140
Phoenix, Arizona 85004-4603
todd@rslynchaty.com
rslynch@rslynchaty.com
Consented to Service by Email

Thomas Loquvam
Pinnacle West Capital
Corporation
Post Office Box 53999, Mail
Stop 8695
Phoenix, Arizona 85072
thomas.loquvam@pinnaclewest.
com
Melissa.Krueger@pinnaclewest.
com
Kerri.Carnes@aps.com
Debra.Orr@aps.com
Thomas.Mumaw@pinnaclewest.
com
Theresa.Dwyer@pinnaclewest.c
om
Consented to Service by Email

Meghan Grabel
Osborn Maledon, P.A.
2929 North Central Avenue,
Suite 2100
Phoenix, Arizona 85012
kruht@omlaw.com
mgrabel@omlaw.com
Consented to Service by Email

Lawrence Robertson, Jr.
Munger Chadwick, PLC
210 West Continental Road,
Suite 216A
Green Valley, Arizona 85622
Tubaclawyer@aol.com
greg.bass@calpinesolutions.com
mtierney-lloyd@enernoc.com
Consented to Service by Email

Daniel Pozefsky
RUCO
1110 West Washington, Suite
220
Phoenix, Arizona 85007
cfraulob@azruco.gov
procedural@ruco.gov
dpozefsky@ruco.gov
jfuentes@ruco.gov
Consented to Service by Email

Marta Darby
Sierra Club
2101 Webster Street, Suite 1300
Oakland, California 94612
Sandy.bahr@sierraclub.org
katherine.ramsey@sierraclub.or
g
marta.darby@sierraclub.org
katie.chamberlain@sierraclub.or
g
Consented to Service by Email

Michael Patten
Snell & Wilmer, LLP
One Arizona Center
400 East Van Buren Street,
Suite 1900
Phoenix, Arizona 85004
docket@swlaw.com
bcarroll@tep.com
jthomes@swlaw.com
mpatten@swlaw.com
mdecorse@tep.com
Consented to Service by Email

THE COMMISSION

December 11, 2018

Page 7

William Sullivan
Law Offices of William P.
Sullivan, PLLC
3240 East Union Hills Drive,
Suite 117
Phoenix, Arizona 85050
ggouker@navopache.org
jcoury@hoolcourylaw.com
cmoore@navopache.org
rheyman@swlaw.com
tcarlson@mohaveelectric.com
wps@sullivan.attorney
maw@sullivan.attorney
Consented to Service by Email

Joseph Marvin
Prime Solutions Group, INC.
1300 South Litchfield Road,
Building 125
Goodyear, Arizona 85338
JoeMarvin@psg-inc.net
meganrubstello@psg-inc.net
Consented to Service by Email

Craig Goodman
National Energy Marketers
Association
3333 K Street, NW, Suite 110
Washington, District of
Columbia 20007
srantala@energymarketers.com
cgoodman@energymarketers.com
Consented to Service by Email

Ed Brolin
JUST ENERGY
87 Hamilton Place, Suite 6F
New York, New York 10031
ebrolin@justenergy.com
Consented to Service by Email

Adam Stafford
Western Resource Advocates
Post Office Box 30497
Phoenix, Arizona 85046
stacy@westernresources.org
adam.stafford@westernresources.org
steve.michel@westernresources.org
Consented to Service by Email

W. Gregory Kelly
Frye & Kelly, P.C.
10400 Academy Road NE
Suite 310
Albuquerque, New Mexico
87111
wgk@fryelaw.us
Consented to Service by Email

Jeffrey Woner
K.R. Saline & Assoc., PLC
160 North Pasadena, Suite 101
Mesa, Arizona 85201
jjw@krsaline.com
Consented to Service by Email

Douglas Fant
Southwestern Power Group
3610 North 44th Street, Suite
250
Phoenix, Arizona 85018
dfant@southwesternpower.com
dgetts@southwesternpower.com
ttray@southwesternpower.com
Consented to Service by Email


Karilee Ramaley
Salt River Project Agricultural
Improvement and Power District
Post Office Box 52025
PAB4TA
Phoenix, Arizona 85072
Deborah.Scott@srpnet.com
Josh.Robertson@srpnet.com
Karilee.Ramaley@srpnet.com
Consented to Service by Email

Briana Kobor
358 South 700 E
Salt Lake City, Utah 84102
briana@votesolar.org
maddy@votesolar.org
Consented to Service by Email

Kenneth Sundlof, Jr.
Jennings Strouss & Salmon,
P.L.C.
One East Washington Street,
Suite 1900
Phoenix, Arizona 85004-2554
sundlof@jsslaw.com
mliska@jsslaw.com
Consented to Service by Email

Robin Mitchell
Director/Chief Counsel, Legal
Division
Arizona Corporation
Commission
1200 West Washington Street
Phoenix, Arizona 85007
legaldiv@azcc.gov
utildivservicebyemail@azcc.gov
Consented to Service by Email

By:


Edna Luna-Reza
Administrative Support
Specialist

Arizona Corporation Commission Staff Policy Statement for Electric Vehicles, Electric Vehicle Infrastructure, and the Electrification of the Transportation Sector in Arizona

I. Introduction

This document reflects the Arizona Corporation Commission's ("Commission") approach to policy pertaining to regulated entities in the State of Arizona and Electric Vehicles, Electric Vehicle Infrastructure, and the Electrification of the Transportation Sector in Arizona.

Electric Vehicles ("EVs") are defined as transportation vehicles that use electricity for propulsion. EV Infrastructure is defined as, but not limited to, charging infrastructure and supporting software. This includes Level 1 120-Volt ("V") Alternating Current ("AC") charging, Level 2 240V AC charging, Level 3 Direct Current ("DC") charging, wireless charging, as well as emerging related technologies. The Electrification of the Transportation Sector is defined as the gradual transition from internal combustion engine vehicles to EVs in both public and private transportation. For this document, Public Service Corporations are limited to those that provide electric services.

One purpose for the Commission developing a policy on Electric Vehicles, Electric Vehicle Infrastructure, and the Electrification of the Transportation Sector is to address the role of regulated entities. Comments filed by stakeholders support a policy statement rather than a rule that would clearly identify the role of regulated entities in Electric Vehicles, Electric Vehicle Infrastructure, and the Electrification of the Transportation Sector. Staff believes issuing a policy statement at this time is appropriate because the EV market is still evolving and it is premature to adopt rules. A policy statement allows the Commission to provide guidelines to regulated entities when deploying EV charging infrastructure and supporting software. To that point, the focus of this policy will be on:

- The role of the regulated entity in charging infrastructure versus private companies;
- Ensuring recovery of such investments is appropriate, just, and reasonable;
- The scope and size of involvement; and
- Encouraging growth in the EV sector in Arizona.

This Policy Statement is intended to provide general guidelines to utilities regulated by the Commission on Electric Vehicles, Electric Vehicle Infrastructure, and the Electrification of the Transportation Sector in Arizona. The Commission intends to follow-up and provide more detail on various areas addressed in the Policy Statement either through additional meetings, workshops, and/or rulemaking proceedings.

II. Background

On August 2, 2018, Commissioner Dunn requested a docket be opened titled Commissioner Dunn's Inquiry into Electric Vehicles, Electric Vehicle Infrastructure, and the Electrification of the Transportation Sector in Arizona. This docket (Docket No. E-00000J-18-

0266) was closed on October 18, 2018 so the issue could be addressed in the rulemaking docket (RU-00000A-18-0284) instead. Subsequently, on November 7, 2018, the Commission directed the Commission's Utilities Division Staff ("Staff") to develop this policy statement on Electric Vehicles, Electric Vehicle Infrastructure, and the Electrification of the Transportation Sector in Arizona.

A. Stakeholder Meetings

A Stakeholders' Meeting was held at the Commission on November 20, 2018. Those in attendance included regulated entities, State agencies including the Residential Utility Consumer Office, private companies, advocacy groups, and individuals. Some of the topics discussed included charging infrastructure, education, awareness, outreach, and pilot programs. Throughout the discussion among stakeholders these focus points were reinforced as top priorities. Regulated entities and non-regulated entities both stressed the need for greater development of charger infrastructure as a precursor to growth of EVs.

Another issue that was addressed was whether someone who installs charging infrastructure would be considered a Public Service Corporation. Staff does not believe it is necessary to address this issue now; however, it will need to be examined in the future.

Stakeholders believe the Commission is well positioned to promote EV infrastructure by encouraging regulated entities to design rates that promote charging during off-peak hours. By encouraging regulated utilities to participate in outreach, education, development of rate plans, data collection, and related pilot programs, the Commission can promote EV infrastructure deployment without a high cost to the ratepayer. Stakeholders urged the Commission to adopt a policy that will allow the market to evolve and not pick winners and losers.

Participants who spoke at the November 20, 2018 stakeholder meeting included:

- Salt River Project
- Southwest Energy Efficiency Project
- Tesla
- Greenlots
- Tucson Electric Vehicle Association

Additional Participants: Navigant Consulting, Arizona Department of Environmental Quality, Tucson Electric Power, Arizona Public Service, Valley Metro, Western Resource Advocates, Arizona Center for Law in the Public Interest, Western States Petroleum Association, International Brotherhood of Electrical Workers, Arizona PIRG Education Fund, Residential Utility Consumer Office and Southwestern Power.

A second Stakeholders' Meeting was held at the Commission on December 11, 2018. The focus of the meeting was to discuss the draft policy statement completed by Staff on December 7,

2018 and Commissioner Burns questions. Stakeholders were encouraged to submit comments on the draft policy statement before and after the December 11, 2018 meeting. Participants at the meeting included: Tucson Electric Power, Arizona Public Service, Western Resource Advocates, Arizona Center for Law in the Public Interest, Western States Petroleum Association, Residential Utility Consumer Office, Southwestern Energy Efficiency Project, Tucson Electric Vehicle Association, Grand Canyon State Electric Cooperative Association, Southwestern Power Group, Plug in America, Greenlots, Rose Law Group, Phoenix Electric Auto Association, ChargePoint, Salt River Project, Alliance for Transportation Electrification, and Tesla.

B. Written Comments

Stakeholders were also invited to file written comments. Filings were made by the following interested parties:

- Advanced Energy Economy
- Greenlots
- Southwest Energy Efficiency Project
- Pearl Street
- Salt River Project
- Tucson Electric Power
- ChargePoint
- Western Resource Advocates
- Plug in America

C. Current State of Electric Vehicles in Arizona

The EV industry is growing rapidly in Arizona just like other regions of the country. Some of the benefits of owning an EV include tax credits, High Occupancy Vehicle lane access during heavy traffic, and reduced vehicle licensing fees. There are hundreds of public EV charging stations around the state and thousands of EV vehicles on the road with both areas showing huge growth year-over-year. Furthermore, Lucid Motors has announced plans to build a \$1 billion EV manufacturing plant in Casa Grande. Staff believes that by adopting this policy it will send a signal to EV manufacturers to locate in Arizona and spur economic development.

According to a study commissioned by Salt River Project, as of March 2018, 813,000 EVs have been sold in the United States. March was the highest selling month to date with a total of 26,373 EVs sold. According to the study there are 45 different models of EVs available for purchase on the market. The market initially consisted of primarily smaller city cars, but projections show by 2022 30 percent of the models will be SUVs/crossovers.

The same study found the following key findings with respect to EV market and customer characteristics:

- EVs use approximately 2,700-3,300 kWh per year.
- Utility TOU rates are very effective in shifting peak loads.
- While DC Fast charging comprised less than 3 percent of total energy used in the study, DC Fast charging was the cause of most of the peaks in the total project load.
- Approximately 81 percent of charging occurred at home, while only ~3 percent of charging occurred in public charging locations.
- The majority of charging occurred at Level 2 (74.0 percent), followed by Level 1 (23.4 percent), and DC Fast charging (2.5 percent).

Excerpted from Electric Power Research Institute technical report at vii

D. Benefits of Electric Vehicles, Electric Vehicle Infrastructure, and the Electrification of the Transportation Sector in Arizona

Commission Staff recognizes that Electric Vehicles, Electric Vehicle Infrastructure, and the Electrification of the Transportation Sector in Arizona comes with many benefits. These benefits may include:

- Rate designs that reduce peak load and take advantage of times with low priced electricity;
- Increased grid reliability;
- Future possibilities of vehicle to grid integrations;
- Lower costs to consumers;
- Supports growth in battery technology which will lead to more economically feasible energy storage;
- Increased EV usage;
- Reduced emissions;
- Environmental benefits; and
- Lower health care costs.

E. Challenges of Electric Vehicles, Electric Vehicle Infrastructure, and the Electrification of the Transportation Sector

Several challenges were identified:

- Whether companies deploying EV charging stations are Public Service Corporations;
- The appropriate rate designs specific to EV charging stations; and
- The role of private vs. regulated entities.

There may be other challenges that have not yet been identified.

III. The Role of the Commission Over Providers of Electric Charging Stations

The Commission has constitutional authority over Public Service Corporations in Arizona. Art. XV, § 2 defines a Public Service Corporation in part as “All corporations other than municipal engaged in furnishing gas, oil, or electricity for light, fuel or power”. Several cases address who is and who is not a Public Service Corporation and subject to the Commission’s jurisdiction. See Southwest Transmission Cooperative v. Ariz. Corp. Comm’n, 213 Ariz. 427 (App. 2006). The question would be whether providers of electric charging stations are engaged in furnishing electricity for “fuel or power” to the public. An argument can be made that these stations are encompassed within the provisions of Art. XV, § 2.

Art. XV, § 3 of the Arizona Constitution gives the Commission broad authority over Public Service Corporations, including sole and exclusive authority to set rates for Public Service Corporations.

Staff does not believe that it is necessary to precisely define the Commission’s role with respect to the provision of electric vehicle charging stations to customers at this juncture. However, at some point the Commission will need to address this issue.

Staff believes the Commission can have its most impactful effect through its regulation of existing Public Service Corporations providing electricity in the state. The Commission’s exclusive ratemaking authority allows it to influence and set appropriate pricing for EV charging stations. The rate design adopted and approved by the Commission will have important impacts on grid reliability, the cost of electricity to customers, and the reduction of peak load periods. The Commission’s review and approval of various rate designs can also allow utilities to benefit from negatively priced electricity coming from neighboring markets.

The Commission can also incent deployment of electric vehicle charging stations through various ratemaking incentives. As an example, the Washington Utilities and Transportation Commission has used various rate making incentives.

Finally, the proliferation of electric vehicles and charging stations will also likely increase certain infrastructure needs and/or expenses of the regulated utilities. This will need to be factored into the Commission's Integrated Resource Planning ("IRP") process.

IV. The Role of Public Service Corporations

Public Service Corporations can play a critical and necessary role in the EV market. For instance, deployment of EV charging stations may be appropriate, and their inclusion in rate base to ensure build-out in rural and low-income areas; multi-dwelling units and interstate corridors or highways.

Second, Commission regulated utilities don't currently have specialized tariffs applicable only to EV charging stations. Such tariffs should be designed to achieve grid benefits, reliability, and lower costs to customers.

Third, Public Service Corporations can also, through pilot programs, obtain valuable information on the deployment of charging stations, customer charging patterns, and the need for rate design incentive programs. Pilot programs designed to obtain information relative to deployment of charging stations should be encouraged. A good example of the type of information that can be obtained is the Electric Power Research Institute's 2018 technical report commissioned by Salt River Project entitled Electric Vehicle Driving, Charging, and Load Shape Analysis.

Finally, increased electric vehicles and charging stations will likely impact other infrastructure needs of the regulated electric utilities which may need to be examined further.

V. Commissioners Questions

On November 29, 2018, Commissioner Burns docketed a list of questions regarding the development of EV policy. Those questions are listed below and were discussed at the December 11, 2018 meeting.

1. Should our initial policy require that Commission regulated electric utilities (including Cooperatives) install, own, and be responsible for all EV infrastructure in Arizona?
2. If a requirement is adopted, will the requirement also need to include a policy for rate design dealing with EV charging stations?

3. If a requirement is adopted, how will the utilities recover their costs – new adjusters, in rate cases only, special tariffs that recover full costs from EV charging only, etc.?
4. Should the Commission's initial policy not require anything at all, but instead simply allow Commission regulated utilities to install, own, and/or operate EV infrastructure up to a certain dollar limit of investment, where the utilities would then be allowed to seek recovery of any other investment that is made between rate cases (i.e., need to show that investment was prudent and is used and useful, no special treatment for EV infrastructure, no accounting orders, etc.)?
5. If No. 4 above is chosen, how would that dollar limit be set?
6. If No. 4 above is chosen, how would private industry (enterprises/businesses not regulated by the Commission) be allowed to install, own, and/or operate EV infrastructure without becoming Public Service Corporations that are regulated by the Commission?
7. If No. 4 above is adopted, will the Commission need to include a policy for rate design dealing with EV charging stations?
8. On any rate design policy dealing with EVs, should those rates be designed such that the full costs of any EV infrastructure are recovered from those rates only so that no other customers or customer classes are affected by the investment in EV infrastructure?
9. Should the policy voted on at the December 17th Open Meeting be a final policy that prohibits all Commission regulated utilities from installing, owning, and/or operating any EV infrastructure in Arizona? If this prohibition is adopted, how will EV infrastructure be installed and operated in Arizona?
10. And perhaps the ultimate question/issue – should the Commission develop/set an EV policy at all or should we just let private industry deal with the issue?

VI. Commission Policy Statement Regarding Electric Vehicles, Electric Vehicle Infrastructure, and the Electrification of the Transportation Sector in Arizona

Policy Statements

Given the significant benefits identified on page 4, the Commission is adopting this policy to encourage regulated utilities to invest in infrastructure and develop programs that support Electric Vehicle charging and widespread transportation electrification.

1. Public Service Corporations can play an integral role in promoting Electric Vehicles, Electric Vehicle Infrastructure, and the Electrification of the

Transportation Sector in Arizona, and their participation should be encouraged as set forth herein.

2. Public Service Corporations are encouraged by the Commission to develop educational and outreach programs (subject to Commission oversight) as they relate to Electric Vehicles, Electric Vehicle Infrastructure, and the Electrification of the Transportation Sector and may request cost recovery for Electric Vehicle programs including education and outreach programs.
3. Public Service Corporations and stakeholders will develop best practices for Commission consideration that include consumer protections.
4. Public Service Corporations should maximize electric grid benefits through appropriate rate designs applicable to EV charging. To accomplish this, regulated utilities should propose optional rate design tariffs to encourage customers to charge vehicles during off-peak hours, creating overall system benefits.
5. Public Service Corporations could deploy EV charging stations in identified areas of low utilization, such as but not limited to, rural and low-income areas, multi-dwelling units, interstate corridors or highways, and other areas. If the Public Service Corporation deploys EV charging stations, this infrastructure would be included in rate base.
6. Public Service Corporations should be encouraged to adopt pilot programs to obtain valuable information on the deployment of EV infrastructure and charging stations, customer charging patterns, and the need for rate designs and incentive programs. Participating utilities are expected to file quarterly updates on such programs with the Commission in this docket.
7. The proliferation of EVs will have an impact on certain infrastructure needs and expenses of Public Service Corporations. This information should be included in their Integrated Resource Plans in the future.
8. Public Service Corporations should encourage the utilization and redeployment of used EV batteries for a secondary use.
9. Public Service Corporations should work with non-regulated entities to determine the location of charging and DC fast charging infrastructure where joint investment and ownership may be appropriate.
10. The Commission will work with the Governor's Office, the legislature, and the Maricopa Association of Governments and other State agencies such as Arizona Department of Transportation, Arizona Department of Environmental Quality, and

Chambers of Commerce to promote Electric Vehicles, Electric Vehicle Infrastructure, and the Electrification of the Transportation Sector in Arizona.

11. Commission Staff will continue discussions with stakeholders on the issue of Electric Vehicles, Electric Vehicle Infrastructure, and the Electrification of the Transportation Sector through future stakeholder meetings and will report to the Commission on a quarterly basis with recommendations for the Commissions further consideration.
12. Commission Staff will work with stakeholders to develop details on implementation on a company by company basis to present for Commission consideration at future open meetings.

ORDER

To provide guidance for electric utilities regulated by the Commission, this Policy Statement addresses Electric Vehicles, Electric Vehicle Infrastructure, and the Electrification of the Transportation Sector in Arizona.

Sincerely,

Tom Forese
Chairman

Bob Burns
Commissioner

Andy Tobin
Commissioner

Boyd Dunn
Commissioner

Justin Olson
Commissioner